# economic trends

March 2013

## *Alberta's economy expands amid strong population growth*

*Alberta continues to attract strong numbers of migrants from all provinces and abroad. Population growth has helped sustain growth in the household sector, while the business sector appears to be stabilizing at a healthy rate of expansion.*

**Key Indicators** All indicators seasonally adjusted unless otherwise indicated.

| Indicator | Latest Month | Value | Change year-over-year (y/y) |
|---|---|---|---|
| Employment (thousands) | February | 2,179 | +2.5% |
| Unemployment Rate | February | 4.5% | -0.4 p.p. |
| CPI Inflation | February | 0.9% | -1.0 p.p. |
| Retail Sales | January | $5.8B | +2.9% |
| Housing Starts (annualized) | February | 33,337 | +4.3% |
| Rigs Drilling (unadjusted) | March | 306 | -9.4% |
| Manufacturing Shipments | January | $6.3B | 0.0% |
| Exports (unadjusted) | January | $8.6B | 0.0% |

**Source:** Statistics Canada, CAODC, CMHC. p.p.= percentage points.

## Global Economy

*Canadian economic growth slows in 2012*

Canadian real GDP grew by 1.8% in 2012 down from 2.4% in 2011. The deceleration was mainly attributable to slower growth in business fixed investment and exports. Real GDP growth was slowest in the second half of 2012, growing at an annualized rate of less than 1% in the third and fourth quarters.

*Dow Jones Industrial Average hits new high*

Having rallied by over 15% since November, the US stock market benchmark hit a new high in early March, surpassing the previous record set in October 2007. Beyond its symbolic importance, the rally is consistent with strength across a number of US indicators. These include strong job gains in three of the last four months, the Purchasing Managers' Index (PMI) rising to the highest level in over a year and a half in February, and retail sales increasing for four consecutive months. A strong US economy is a good signal for the province, as the US is the destination for over 85% of Alberta's exports.

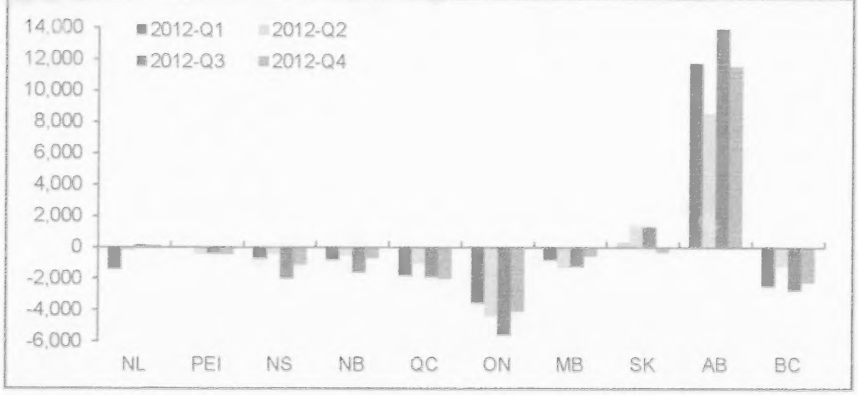
*Japan moves to defeat deflation*

Japanese Prime Minister Shinzo Abe has appointed new leadership for the Bank of Japan committed to aggressive monetary stimulus in a bid to achieve a 2% inflation target. While targeting 2% inflation is common in most advanced economies, it is a major departure for Japan, which has suffered from 15 years of deflation and stagnant growth. When Abe announced his plan for a higher inflation target in November, it set off a rally in Japanese stock prices, and led to a substantial depreciation of the Japanese Yen. If successful, the world's third largest economy could once again become an engine of global growth.

*Regime change in Venezuela*

Venezuelan President Hugo Chavez died on March 5. During his 15-year rule Venezuelan oil exports declined by almost 50%. Venezuela has the second largest oil reserves in the world and, similar to Alberta, produces heavy crude oil, much of which is exported to the US.

**Chart 1: Interprovincial Migration**




**Source:** Statistics Canada

## Alberta Household Sector

*Migrants drive Alberta's population growth*

Alberta added 11,533 people from other provinces and 6,296 net international migrants in the fourth quarter of 2012, which helped push year-over-year population growth to a nation leading 3.0%. The strong population growth has helped fill the large number of job vacancies in the province and has supported growth in retail sales.

*Service sector posting strong job growth*

Building on gains in 2011 and 2012, Alberta's labour market has started 2013 on a strong note. The province added 4,200 jobs in February after gaining a robust 9,700 jobs in January. Alberta's unemployment rate has stabilized at around 4.5%, hovering between 4.2% and 4.6% over the last ten months.

Since last summer, the driver of job growth has shifted from the goods to the service sector. The service sector has added 42,800

jobs since July 2012, whereas the goods sector has shed 15,600 over the same period. Within the service sector, the finance, insurance, real estate and leasing industry and the professional, scientific, and technical services have posted the largest gains since last summer.

*Consumer spending growth moderates*

After nation-leading growth in retail sales last year at 7.6%, sales growth in Alberta has cooled to a more sustainable pace, averaging just over 3% over the last three month on a year-over-year basis. Vehicle dealers continue to drive retail sales growth. However, many other retail categories have moderated, such as sales from gas stations.

*Earnings growth moderates*

Despite continued year-over-year gains, average weekly earnings (AWE) have remained relatively flat since last August. After hitting a high of over $1,100 in August 2012, earnings now sit at $1,090 as of January of this year. Year-over-year growth in AWE has moderated from 6% to a more sustainable growth rate of 3.6% as of January 2013.

*Inflation remains subdued*

After turning negative in January for the first time since 2009, Alberta's inflation rate (0.9%) continued to trend lower than the national average (1.2%) in February. Natural gas and gasoline prices pushed CPI inflation back into positive territory, while electricity continued to subtract from inflation. When the more volatile food and energy components are removed, inflation remains low at 1.4% in the province.

## Alberta Business Sector

*Construction activity grows in 2012*

Spending on construction ramped up in 2012, following two consecutive annual declines. Real growth in industrial and commercial construction fuelled a 1.1% increase in non-residential building spending. Institutional and government investment, however, posted its second straight annual decrease. Activity in residential construction jumped by 16% to reach the highest annual total in 5 years in 2012.

*Healthy construction activity to continue*

Increases in the value of building permits and surveyed investment intentions by Statistics Canada have signalled further growth in both non-residential and residential construction activities this year. Non-residential building permits jumped to the highest level since 2008 last year (Chart 2), and started 2013 with a 30% surge over January 2012. Moreover, the value of residential building permits in January jumped by 20% on a year-over-year basis. Housing starts have continued to post solid gains, up a strong 7.8% in the first two months of 2013 compared with the same months last year.

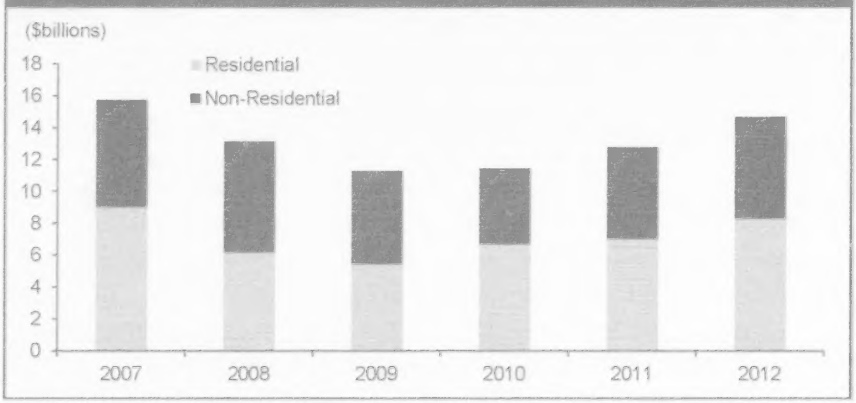
*Construction costs remain contained*

Despite the increase in activity, construction cost increases remain subdued. In Calgary and Edmonton, non-residential building construction costs were up 3.7% and 3.8% respectively. Likewise, the apartment building construction price index, a proxy for residential construction cost, remains below the pre-recessional level in both cities.

*Manufacturing shipments and exports improve*

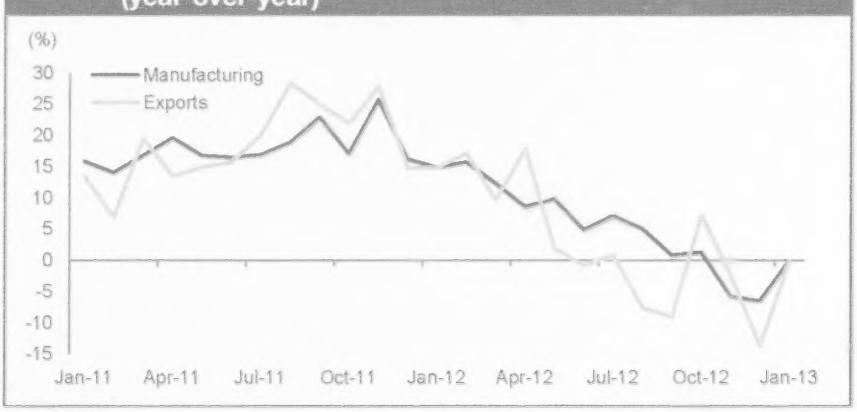
Alberta manufacturing shipments jumped to the highest level in four months in January. Shipments recovered to the same level recorded last year after two year-over-year declines. Leading the upswing, chemical manufacturing posted the first year-over-year growth in eight months and wood product shipments continued to post strong growth. Similarly, Alberta merchandise exports were flat when compared with last year's level in January, also having improved after two consecutive year-over-year decreases. Energy product shipments were down for the third consecutive month on a yearly basis, reflecting lower energy prices (Chart 3).

**Chart 2: Alberta Annual Building Permits**




**Source:** Statistics Canada

**Chart 3: Alberta Manufacturing Shipments and Exports (year-over-year)**




**Source:** Statistics Canada

# Capital Investment in Alberta

## Recent trendsand 2013 intentions

*Investment is a major driver of Alberta's economic growth, with capital spending more than doubling over the last decade. This year, investment in Alberta is expected to grow slightly over last year's record high level, yet the growth will be at a more cautious pace. The recently released investment intentions survey by Statistics Canada shows that oil and gas capital spending will hold steady at 2012 levels, while residential and other business investment will increase.*

*This InFocus takes a closer look at trends in investment spending in Alberta over the last ten years and intentions for 2013.*

### Investment in Context

*Investment fuels Alberta's economic growth*

Investment has been a major engine of growth in the province, rising at a remarkable pace of 8.7% per year over the last decade. Business investment, defined as investment in non-residential construction and machinery & equipment by the private sector, has been particularly strong, growing at nearly double the national pace since 2002 (Chart 1). Capital investment as a share of GDP has trended higher since the mid 1990s, increasing from approximately 20% of GDP in 1990 to 30% in 2011.

*The oil & gas sector has driven investment growth*

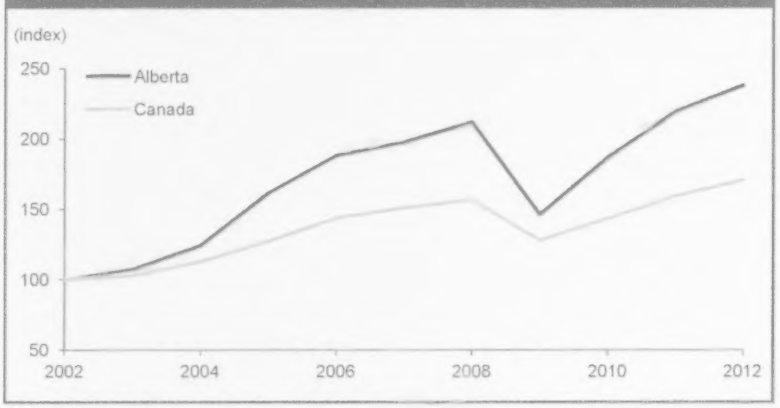
A closer look at the last ten years reveals that the oil and gas sector has contributed the most to nominal investment (Chart 2). Oil and gas extraction investment has averaged $33.9 billion per year over the last ten years, accounting for about two thirds of all business investment in the province. Overall, oil and gas capital spending rose at an impressive 10% annual pace since 2002, mainly reflecting an annual average jump of 13.7% in oil sands investment. Most of the run-up occurred during a very short period; between 2004 and 2008, oil sands capital spending more than tripled. After falling during the recession, oil sands investment reached new peaks in 2011 and 2012.

Strong activity in the oil and gas sector has fostered investment growth in other sectors of the economy. Investment increased across all major industries (Chart 2), with the largest percentage increases coming from construction and utilities.

### Looking ahead to 2013

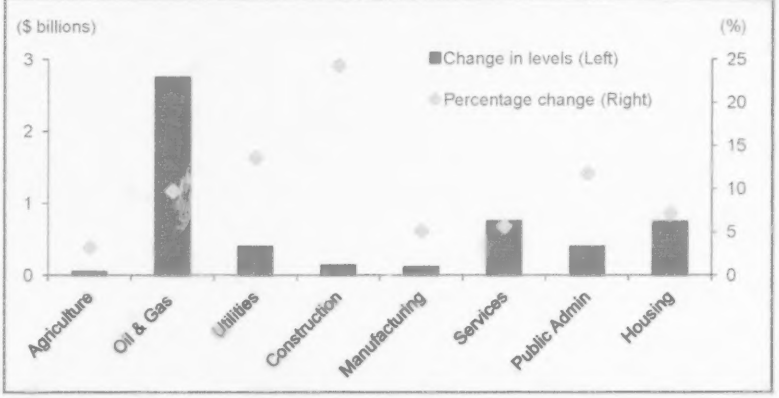
Statistics Canada's Public and Private Investment Intentions (PPI) is one indicator of future investment. The survey is conducted between October and January and released in February. Actual capital spending plans are subject to numerous variables, such as cost escalation, or a changing economic environment that can alter investment intentions. For example, investment intentions for Alberta in 2012

**Chart 1: Business Investment Growth**




**Source:** Statistics Canada

**Chart 2: Average Annual Growth in Alberta Capital Investment by Industry ( 2002 - 2012)**




**Source:** Statistics Canada

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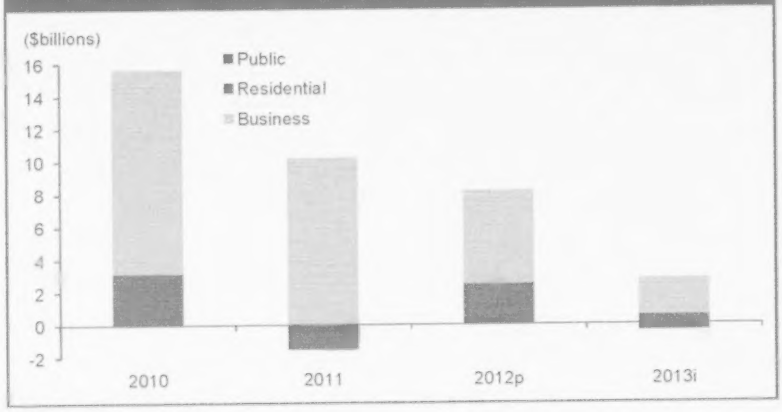
came in $401 million (or 0.4%) below the actual preliminary results. Nonetheless, the survey is a valuable indicator of the overall and industry level business climate in Alberta and Canada.

*Investment intentions continue to grow*

Investment growth is expected to moderate this year from the elevated growth rates recorded since the recession. The moderation mainly reflects weaker market conditions for oil producers.

Intentions point to a 2.4% increase in overall investment in Alberta to $100.6 billion in 2013. Gains in business and residential investment are expected to outpace a decline in public capital spending (Chart 3). Overall, Alberta's investment growth will still outpace the national gain of 1.7%.

**Chart 3: Annual Change in Investment in Alberta**




**Source:** Statistics Canada

## Industry Outlook

*Oil and gas producers hold the line on capital spending plans*

Alberta's oil and gas industry has encountered market pressures, such as uncertainty over market access, wide oil price differentials, and continued weakness in natural gas prices. These pressures have translated into a more cautious approach to investment. Intentions suggest almost no change in investment spending in Alberta's oil and gas extraction industry in 2013. Non-conventional oil investment is expected to expand for the fourth straight year (9.8%), albeit at a slower pace than over the past three years. This reflects more oil sands projects scheduled to proceed. Conventional investment will offset gains in non-conventional, as expenditures are expected to decrease for the second consecutive year in 2013, down 12% from 2012 (Chart 4).

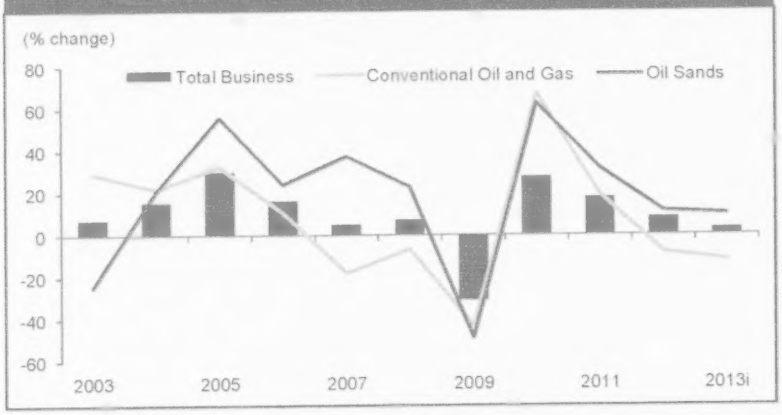
*Manufacturing, transportation & warehousing to lead growth*

Outside oil and gas extraction, business investment is expected to grow by a strong 7.9% over 2012 levels. Intentions suggest that transportation and warehousing will make a significant contribution in 2013, jumping 22.4% over 2012 to account for more than half of Alberta's growth in business investment. The manufacturing sector is also expected to support investment growth with a 16.4% increase in 2013, primarily reflecting a 48.3% spike in chemical manufacturing investment.

*Machinery and equipment to play a bigger role*

Over the last decade, construction expenditures have far outpaced those on machinery and equipment (M&E). However, in 2013, M&E is expected to play a much more significant role, growing at its highest rate since 2006 (6.5%). This reflects growth in M&E intensive sectors, such as oil sands, and transportation & warehousing. Meanwhile, business non-residential construction is expected to grow at the lowest rate since the decline in 2009, up only 1.8% from 2012 levels.

**Chart 4: Alberta Business Investment by Industry**




**Source:** Statistics Canada

## Summary

Investment intentions for this year suggest only a small increase in business investment. This confirms that Alberta's GDP growth in 2013 will not likely be driven by large investment gains.

The oil and gas sector is expected to remain a key investment driver, maintaining 2012's very strong levels; however, growth is expected to be flat in 2013. Other industries are expected to add more significantly to investment growth in 2013.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